

**2020** **A RENEWED URGENCY**  
RESPONSIBLE INVESTING REPORT



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## **About OPTrust**

With net assets of over \$23 billion, OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan (including OPTrust Select), a defined benefit plan with over 98,000 members.

# MESSAGE FROM THE CHAIR AND VICE CHAIR

As OPTrust marked its 25th anniversary in 2020, it faced one of the most uncertain external operating environments in the organization's history. In March, COVID-19 was declared a global pandemic and the team quickly transitioned to a remote work environment and adapted to the new realities of a physically distanced world.

As a Board of Trustees, it was reassuring to see how OPTrust responded to these challenges, seamlessly navigating short-term market volatility while keeping a focus on members' interests and the Plan's long-term sustainability. The pandemic highlighted the importance of investment stewardship and in this report, we are pleased to share the progress OPTrust made in enhancing our responsible investing program and commitments to sustainable investing and equality.

Some highlights from 2020 include the updating of OPTrust's Statement of Responsible Investing Principles and Proxy Voting Guidelines to reflect evolving best practices. We also developed a capital allocation program dedicated to investing in innovative sustainability solutions and maintained our A+ grade on strategy and governance from the UN Principles for Responsible Investment (PRI).

While 2020's challenges solidified our long-standing belief that environmental, social and governance (ESG) factors can materially impact risk, return and reputation, the continued evolution of OPTrust's approach to responsible investing is possible because of our strong foundation.

We extend our deep appreciation to the team for its resilience in adapting to a difficult operating environment and bolstering its responsible investing efforts amid a period of extreme volatility. Investing responsibly is an integral part of our fulfilling our mission to deliver long-term pension security for OPTrust's members and it has remained at the forefront, even during challenging times.



**Sharon Pel**  
Chair



**Lindsey Burzese**  
Vice Chair



# MESSAGE FROM THE PRESIDENT AND CEO

In December 2019, OPTrust realigned our responsible investing function by starting a new team dedicated to sustainable investing and innovation to build on our efforts to generate sustainable returns for members and the fund. We knew that responsible investing was growing in importance, but what we could not predict is how profoundly the world would change a year later. When COVID-19 hit, inequality and sustainability became top-of-mind for many people and the responsible investing efforts at OPTrust have taken on a renewed sense of urgency.

Throughout 2020, key events like the pandemic and the advancement of the Black Lives Matter movement have called attention to issues ranging from systemic racism, to diversity and inclusion, to workplace health and safety. Meanwhile, climate change remains an issue demanding urgent attention.

These issues are important to us as an investor, not only from a risk management perspective, but also because challenges can become opportunities for those with the ability and expertise to play a role in solving them. ESG issues are also important to our members. In fact, according to our research, the vast majority of members we surveyed said they believe climate change, labour rights and diversity are important for OPTrust's investing program.

Despite the challenges of this past year, we maintained our focus on responsible investing. For example, in 2020, we completed carbon risk assessments, including carbon footprinting of our public equity, fixed income, private equity and infrastructure portfolios. We also established a cross-portfolio working group to strengthen the integration of ESG into externally managed investments.

Our expectations to act responsibly don't only apply to our portfolio companies – we also hold ourselves to a high standard. In 2020 we signed onto the BlackNorth Initiative's pledge to help play a role in eliminating anti-Black systemic racism and committed to key efforts internally to make OPTrust a more diverse and inclusive workplace.

We also strongly believe in the value of defined benefit pensions, not only to members and retirees, but to society and the economy more generally, which is why we launched OPTrust Select in 2018 to allow nonprofit sector workers to participate in our pension plan. Even against the backdrop of a global pandemic, we continued to enroll new members through 2020. The people who have joined OPTrust Select provide a range of critically important services including healthcare, community support and environmental advocacy and it is a true honour to be able to support them in retirement through this pension offering.

I would like to thank the team for its ongoing efforts throughout a difficult time to ensure we continue to progress on our responsible investment journey for the ultimate benefit of plan members.



**Peter Lindley**  
President and Chief Executive Officer



# 2020 HIGHLIGHTS



Engaged **543** companies on key ESG issues

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Voted at **2,028** company meetings in **52** countries

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Developed a **cross-portfolio approach** to strengthen **responsible investing integration** in externally managed investments

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Built an **investing program to allocate capital** to opportunities at the intersection of **sustainability and innovation**, with an initial focus on climate solutions

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Completed **carbon risk assessments**, including carbon footprinting of our public equity, fixed income, private equity and infrastructure portfolios

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Updated our **Statement of Responsible Investing Principles** and **Proxy Voting Guidelines**

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Initiated a renewal of our **climate change strategy**

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Received A+ for our **strategy and governance** approach to responsible investing from the **Principles for Responsible Investment (PRI)**

# RESPONSIBLE INVESTING PRINCIPLES AND GOVERNANCE

OPTrust's responsible investing strategy is integral to our mission of paying pensions today and preserving pensions for tomorrow. We recognize that ESG factors can materially impact investment risk and return, as well as reputation, and we strive to identify, assess and manage related concerns and opportunities as part of our investment activities.

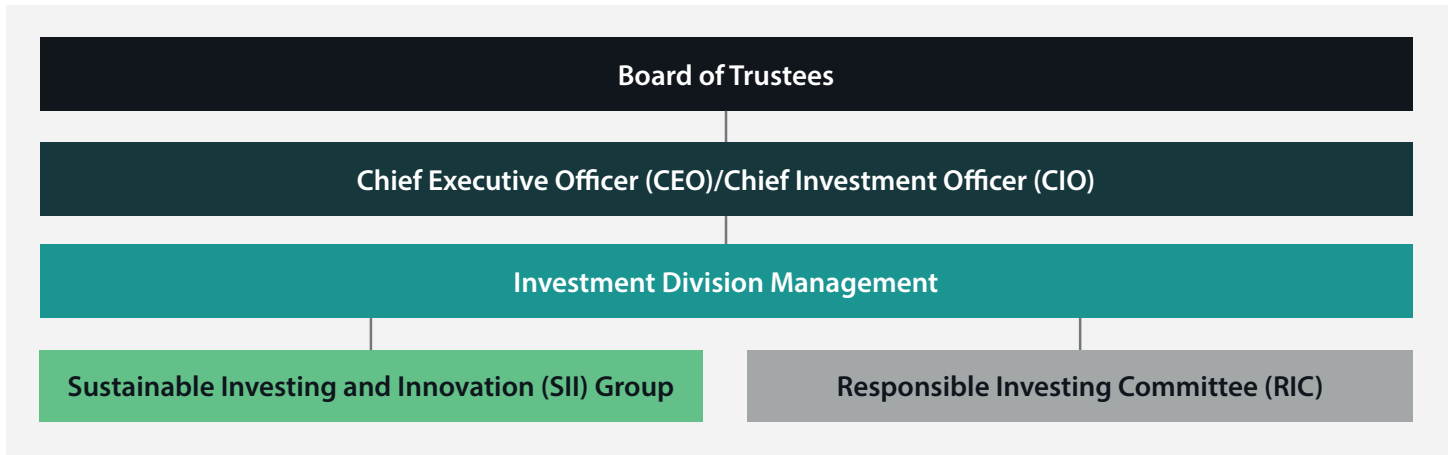
## STATEMENT OF RESPONSIBLE INVESTING PRINCIPLES

Our Board-approved Statement of Responsible Investing Principles (SRIP) provides the principles-based framework that OPTrust applies to incorporate ESG factors into our investing programs. In 2020, we revised the SRIP to reaffirm our guiding principles, which are grounded in our fiduciary duty to ensure sustainable pension security:

- 1 Strong corporate governance:** We support and encourage good corporate governance practices at the entities in which we invest. Companies that adhere to recognized principles of good governance tend to have better risk-adjusted returns and improved alignment between corporate, investor and broader stakeholder interests.
- 2 Environmental stewardship:** We support and encourage measures taken by the entities in which we invest to protect the environment. We expect our investee companies to ensure compliance with environmental regulations, and in regions where there are limited regulations or regulations that are not enforced, to strive for generally accepted best practices.
- 3 Responsible treatment of people and communities:** We support and encourage equitable practices relating to employees, communities and other stakeholders, including but not limited to: fair wages, benefits and working conditions for people employed by OPTrust-owned assets, participation by unions and labour in the growth of our investee companies and respect for human rights.
- 4 Transparency and disclosure:** We encourage transparency and disclosure of relevant and material ESG information to enable investors to fully assess and manage ESG risks and opportunities.
- 5 Active ownership:** We practice active ownership by monitoring ESG issues and engaging with investee companies, partners and policymakers to advocate for improved management of material ESG factors.

## GOVERNANCE

Reflecting our conviction that strong corporate governance contributes to long-term value creation and alignment with stakeholders, our responsible investing program is governed by the following framework:



- With oversight of OPTrust’s responsible investing program, the Board approves the SRIP and the Proxy Voting Guidelines on an annual basis and receives regular reporting on responsible investing activities and performance.
- The Board has delegated responsibility for operationalizing the SRIP to the CEO, who in turn has delegated it to the CIO. The CIO oversees the implementation of the responsible investing program.
- The Investment Division investing teams are responsible for adhering to the SRIP and are accountable for identification, assessment and management of ESG factors in the investment process.
- The Managing Director, SII, oversees the responsible investing program and supports the Investment Division in instituting responsible investing practices and managing ESG issues.
- Chaired by the Managing Director, SII, and accountable to the CIO, the RIC is comprised of representatives from across the organization and serves to facilitate the integration of responsible investing into the investment function.

### SUSTAINABLE INVESTING AND INNOVATION GROUP



**Alison Loat**  
Managing Director



**James Kisil**  
Portfolio Manager



**Lindsay Saldanha**  
Associate Portfolio Manager



**Shweta Arya**  
Senior Analyst



**Laura Song**  
Analyst



**Katie Yates**  
Relationship Advisor



**Lisa Kelly**  
Relationship Advisor

# RESPONSIBLE INVESTING ACROSS ASSET CLASSES: YEAR IN REVIEW

Between a global pandemic, uncontrollable wildfires and a reckoning with racial inequality, 2020 cast a light on ESG issues like never before. It is undeniable that natural and social factors have material impacts on our investments, communities and the planet.

Through this tumultuous year, we have remained steadfast in our commitment to upholding our responsible investing principles, and we continue to advance critical work in these areas to bolster our assets' resilience.

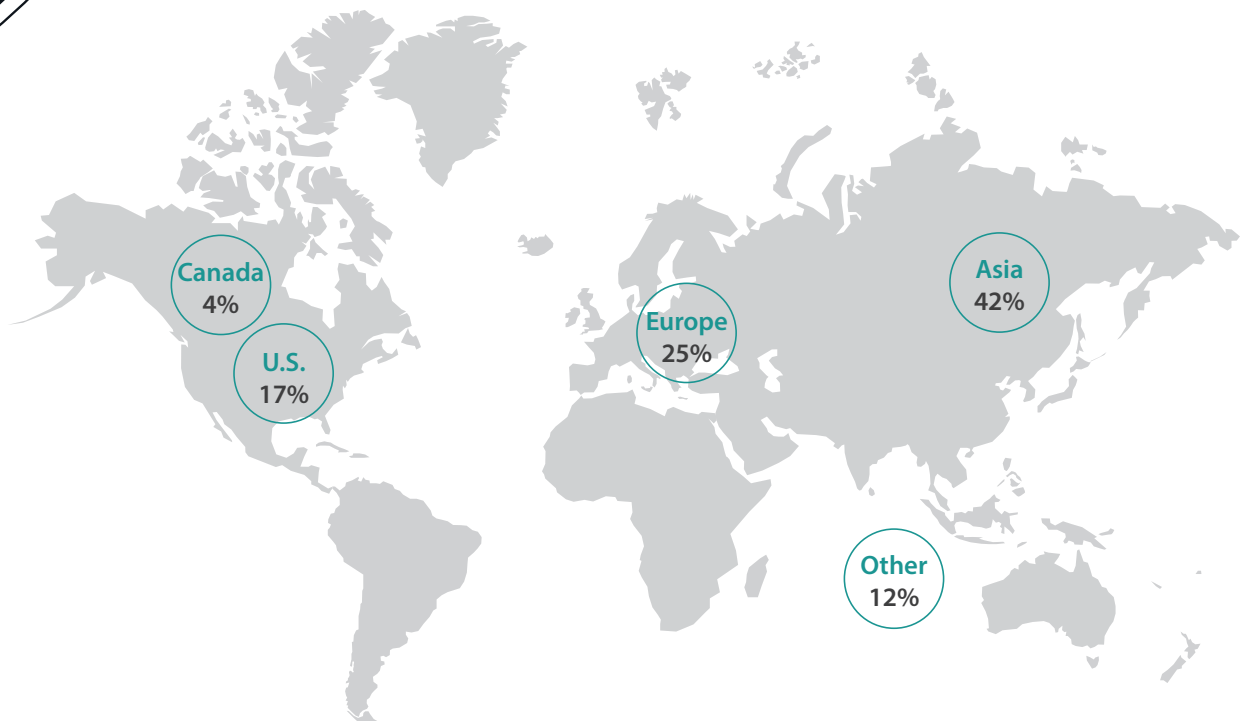
## CAPITAL MARKETS GROUP

The Capital Markets Group manages the fund's public equity, public credit and multi-asset strategy components, either internally or through external managers. Cornerstones of this group's responsible investing program include OPTrust's long-standing proxy voting and corporate engagement programs.

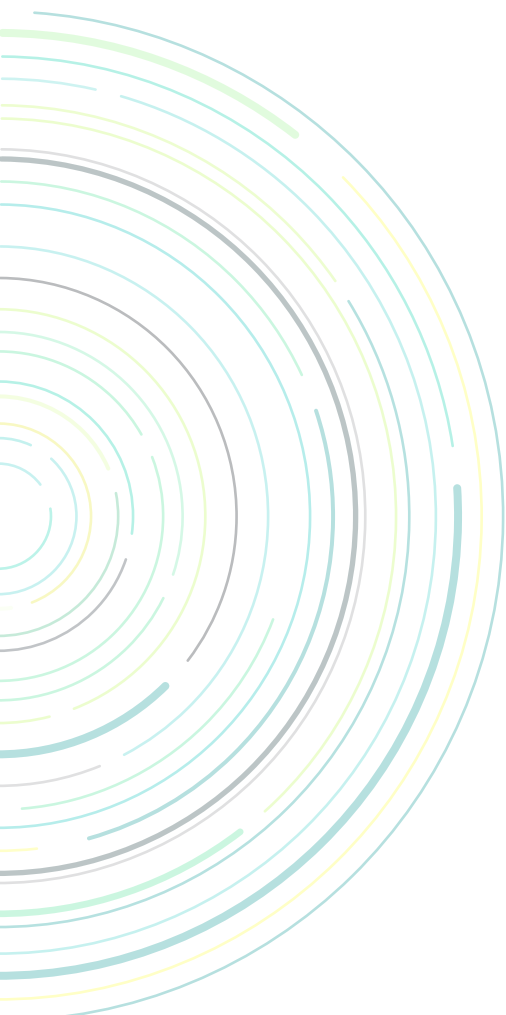
### Proxy voting

As a long-term investor, OPTrust believes that good governance practices enhance shareholder value and contribute to stronger long-term performance. Actively exercising our voting rights for our public securities is an integral component of our responsible investing program and, by extension, fulfillment of our fiduciary duty to our members. Our voting activities are guided by our Board-approved Proxy Voting Guidelines, which cover key topics such as board composition, executive compensation, shareholder rights and disclosure of material ESG information.

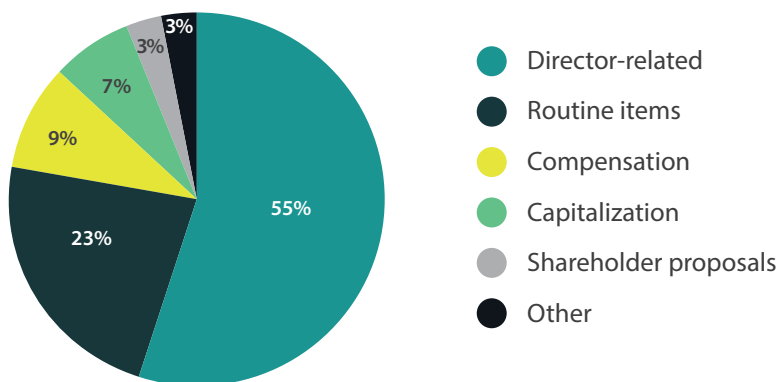
In 2020, OPTrust voted at 2,028 meetings in 52 countries.







### Proposals voted by category



### Voting highlights

- Voted on 23,887 proposals
- Voted against management on 14% of proposals
- Voted against 716 director nomination proposals due to inadequate board gender balance

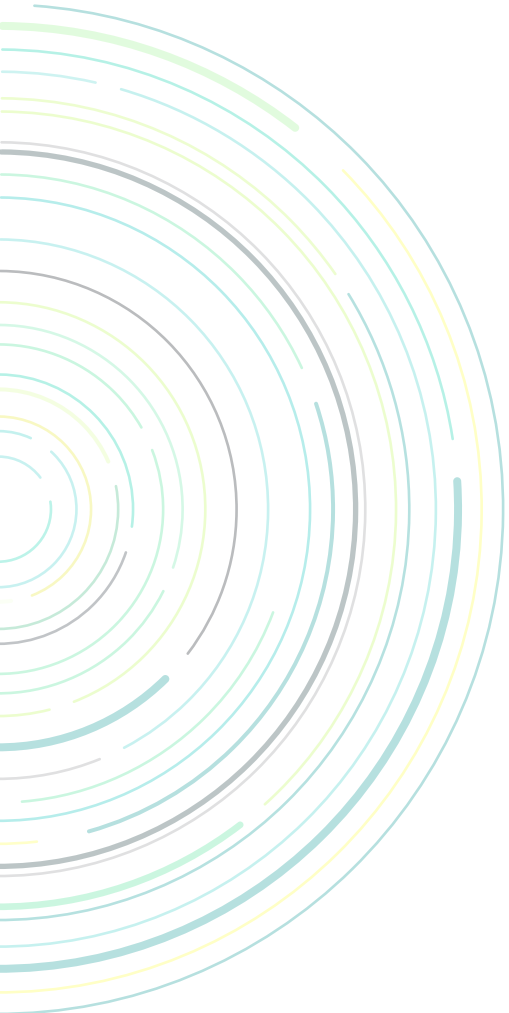
## Corporate engagement

OPTrust practices active ownership in our investments to monitor performance, manage emerging issues and enhance long-term value. For us, engagement with our investee companies is preferable to divestment in most cases, as it enables us to keep a seat at the table and work alongside our partners to effect positive change. We work with our engagement partner and other investors to engage with investee companies on key ESG issues that contribute to sustainable performance. Results and examples of our 2020 engagements are highlighted below.

### 543 Companies engaged on key ESG topics

Business Conduct	105
Climate Change	367
Corporate Governance	411
Environmental Stewardship	172
Human Rights	75
Labour Standards	506
Public Health	162

Note: Engagements by topic do not add up to the total since most companies were engaged on multiple ESG topics.



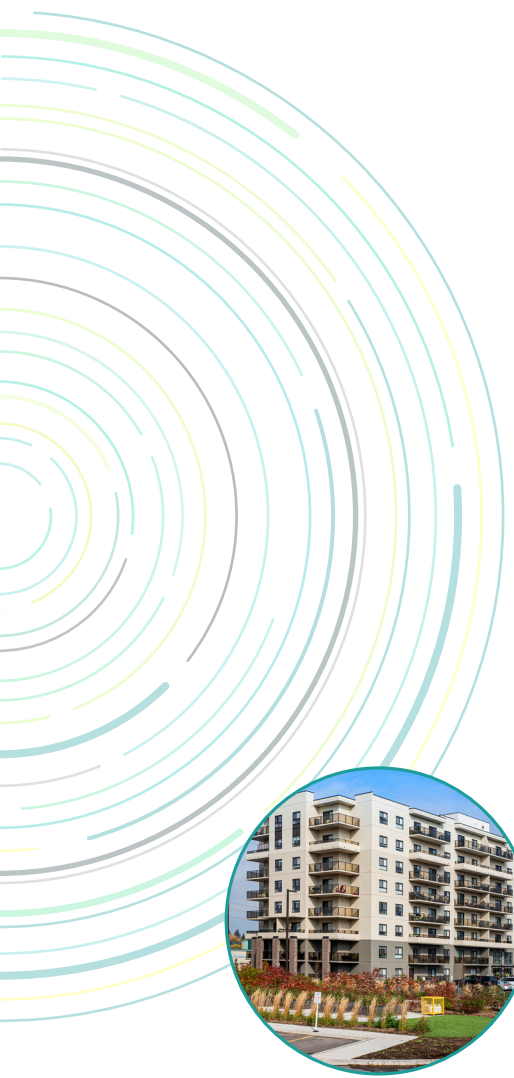
### Engagement milestones

- **Climate change** – Glencore committed to decarbonize its operations by 2050. The company has further established an interim emissions reduction target of 40% by 2035 and will completely exit the thermal coal segment. Given the company’s influential market share, this is a significant achievement not only for Glencore but for the broader mining sector.
- **ESG reporting** – PayPal improved its impact reporting by publishing more tangible and measurable metrics of the positive impact of its products, with reference to the UN Sustainable Development Goals.
- **Board independence** – SoftBank significantly reformed its board structure, resulting in four directors stepping down. The board is now composed of nine directors, four of whom are external and independent.
- **Sustainable farming** – Vitasoy developed farming guidelines governing the proper management of fertilizer, land, water, energy usage, biodiversity and labour standards. During the year, the company piloted the guidelines on two farms in China.
- **Diversity and inclusion** – Multinational chemicals company BASF set a target to increase the proportion of women in leadership positions to 30% worldwide by 2030.



### CULTIVATING OUR GREEN BOND PORTFOLIO

In 2020, OPTrust increased our exposure to green bonds and was an active participant in the new issue provincial green bond market. The proceeds of green bond issuance fund a wide range of environmental projects in Ontario, including developments in: clean transportation; energy efficiency and conservation; clean energy and technology; forestry and land management; and climate adaptation and resilience. Green bonds enable OPTrust to earn attractive risk-adjusted returns to fund our members’ pensions, while simultaneously contributing positively to the sustainability of their communities.



## REAL ESTATE GROUP

OPTrust's real estate investments play a crucial role in creating long-term value and generating predictable income to fund our members' pensions. Managed with a focus on environmental sustainability, our properties also positively impact the communities where they are situated. Of our directly held Canadian property portfolio, 66% has been awarded Leadership in Energy and Environmental Design (LEED) or Building Owners and Managers Association (BOMA) sustainability certifications and the Real Estate Group (REG) is steadily advancing environmental and community management across the portfolio to enhance value.

### Sustainability excellence in residential property: Paisley Square



In 2017, OPTrust acquired, via forward purchase, an 85% equity interest in Paisley Square, a four-phase multi-family residential complex under development in Guelph, Ontario. In 2020, with stabilized occupancy and a demonstrated track record of sustainable management and operations, the first two phases of Paisley Square earned BOMA BEST Gold certification, which recognizes excellence in energy and environmental management and sustainable performance in commercial real estate. Phases One and Two were subsequently awarded the BOMA Toronto Earth Award for achieving the highest BOMA BEST certification scores in the 'Multi-Unit Residential Building' category. These accolades reflect Paisley Square's many environmentally sustainable characteristics, including its energy usage, air quality and focus on health and wellness.

### Facilitating greener distribution: 307 Orenda Road



In 2016, OPTrust acquired the site at 307 Orenda Road in Brampton, Ontario and built out a state-of-the-art industrial complex with the intention of attaining a leading level of sustainability certification. Construction was completed in 2017 and the property now operates as a warehouse distribution centre. As e-commerce boomed during the COVID-19 pandemic, the centre has played an ever-increasing role in facilitating distribution for local businesses and ensuring essential goods are delivered to local communities. In 2020, the property exceeded expectations by achieving LEED Silver certification, owing to its sustainable construction and features that reduce water usage, improve indoor air quality and facilitate responsible waste management and diversion.

## SPOTLIGHT: ACTIVE OWNERSHIP DURING COVID-19 IN REAL ESTATE

**Andy Alcock**, a Director in the REG, shares how we jumped into action to help tenants and our properties adapt to the new realities of the pandemic.

**Q:** In what ways did the COVID-19 pandemic impact our real estate investments?

**A:** The pandemic continues to have a significant impact on all sectors of real estate. Across our portfolio, we saw reduced occupancy and collection rates at most properties as social distancing and economic shutdowns were instituted to slow the spread of the virus. Where properties remained open or were later reopened, we had to move quickly to overcome operational challenges in devising and implementing new protocols — such as outdoor queuing and occupancy limits — to keep our tenants and visitors safe.

The worst-hit real estate sectors in general were hospitality and retail. Unquestionably, hospitality has suffered greatly due to the major declines in both business and leisure travel. Retail was similarly devastated by the prolonged forced closures of non-essential business, which significantly accelerated the growth of e-commerce. The office sector has certainly been affected, but much of that impact remains to be seen due to the longer terms of office leases.

**Q:** In light of the outsized impact on retail properties, what role did REG play as an active owner to assist its tenants in the retail sector and their communities?

**A:** While we have always played an active role in our direct investments, the COVID-19 pandemic necessitated a redoubling of our active ownership efforts. We undertook a review of each of our properties to assess which capital projects, such as upgrades to air handling systems and installation of touchless entries, should be implemented or accelerated to protect our tenants' and visitors' health and safety.

Right at the outset, we also advised all of our property managers that no tenants were to be defaulted without OPTrust's approval. Through the pandemic, we did not evict a single retail tenant. The team worked closely with our tenants to ensure they were treated fairly and given every opportunity to survive so they can eventually thrive at our properties.

OPTrust participated in the Canada Emergency Commercial Rent Assistance program for all qualifying tenants. The program, sponsored by the Government of Canada, required the landlord to forgive at least 25 per cent of participating retailers' rent from April to September 2020. We also collaborated with our property managers to research and provide tenants in all jurisdictions with information on the various other forms of government support available to them. For retailers that required further relief, we negotiated lease amendments resulting in rent forgiveness, rent deferral, extended lease terms or other measures designed to help them weather the storm.

As a result of these efforts, most of our retailers have been able to maintain their storefronts in our properties. Our compassionate approach through these challenging times has earned us greater trust of our retail tenants, which will have a positive impact on our retail business for years to come.

**Q:** Why was it important for REG to support its tenants through the crisis?

**A:** We're focused on the long term. It is crucial that we maintain strong relationships with our tenants so that we can continue to work together cooperatively going forward. Tenants will undoubtedly look favourably on landlords that helped them through tough times and that helps us retain current tenants and attract new ones going forward. This approach helps maintain our properties' occupancy levels and sales and aligns with our focus on long-term value.





## PRIVATE MARKETS GROUP

OPTrust's private equity and infrastructure holdings, including both direct and fund investments, are managed by the Private Markets Group (PMG). When investing directly in private companies, PMG tends to hold more substantial ownership stakes compared to our public market investments, granting us governance rights and board representation that allow us to play a more active role in the assets' management.

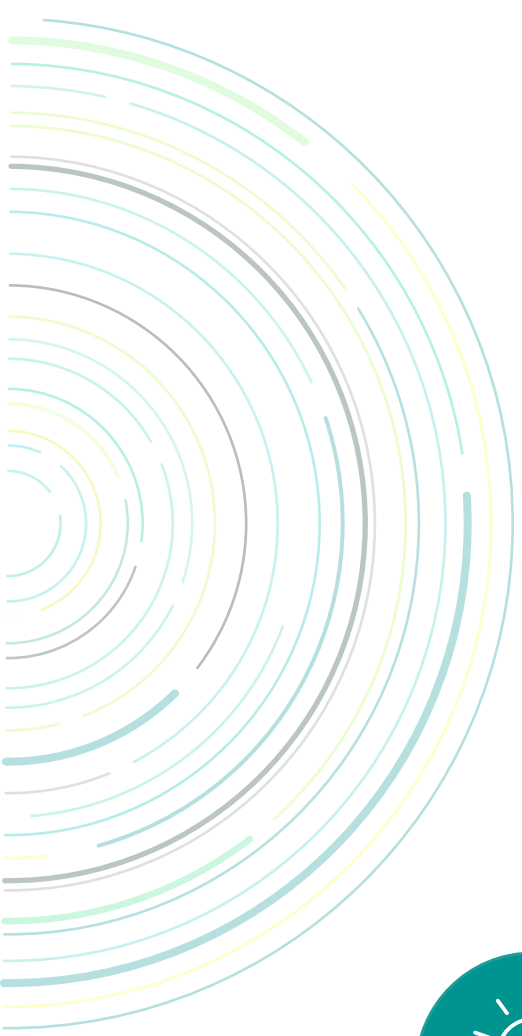
### **Constructive community partnerships: Cascade Power Project**

OPTrust played a leading role in the development and financing of the Cascade Power Project, a landmark deal that exemplifies the possibilities of investment partnership with local Indigenous communities. The 900-megawatt combined-cycle natural gas-fired power generation facility under construction near Edson, Alberta is the first deal backed by the Alberta Indigenous Opportunities Corporation and will support the province's transition away from coal-fired power.

OPTrust partnered on this deal with several other institutional infrastructure investors and the Indigenous Communities Syndicate LP, a consortium owned by the Alexis Nakota Sioux Nation, Enoch Cree Nation, Kehewin Cree Nation, O'Chiese First Nation, Paul First Nation and Whitefish Lake First Nation. Through the First Nations' stake, this project will provide income for future generations and ensure the First Nations play a leadership role in the province's resource development.

In recognition of the project's innovative First Nations partnership and long-term contracting strategy, the Cascade Power Project was named *Project Finance International's* 2020 Canadian Power Deal of the Year.





## Formalizing ESG governance in private assets

In 2020, we developed a sample ESG policy for use in OPTrust's directly held private equity and infrastructure assets. For our private market acquisitions that don't already have an established approach to governing and managing ESG issues, this policy may serve as a building block and reflects the value that OPTrust can add as an active owner.

The policy outlines key components of any ESG program, including: roles and responsibilities, expectations for stakeholder engagement and guidelines for performance and disclosure. The policy will be adapted by individual companies to account for factors such as local regulations, industry practices, materiality of ESG issues, organizational maturity and company strategy.

This work underscores our commitment to working in partnership with boards and management teams to ensure they're actively integrating ESG factors, both on the risk and opportunity side. We are committed to effectively managing these issues, as we recognize that successful businesses must increasingly account for less conventional risks and opportunities in order to preserve and drive value over the long term.



### DID YOU KNOW?

- We manage several renewable power platform assets, which collectively generated over 700 million kilowatt hours of renewable energy in 2020. The energy generated is equivalent to more than 90,000 homes' annual electricity usage.
- Our first renewable power investment was in 2007 and the sector now represents 20% of our infrastructure portfolio.

## SPOTLIGHT: ACTIVE OWNERSHIP DURING COVID-19 IN PRIVATE MARKETS

*"In the early months of the pandemic, we ramped up our board engagement to help impacted businesses create protocols to ensure the health and safety of their employees and customers, adapt their business models to continue operating safely where possible, create contingency plans, monitor liquidity, ensure supply chain resilience and undertake cost savings initiatives to offset any temporary revenue declines."*



### Sandra Bosela

Co-Head of Private Markets Group, Managing Director and Global Head of Private Equity

OPTrust's stewardship goes beyond providing strategic and operational guidance and support to our portfolio companies through board involvement and active management. Among other initiatives, PMG also supports its portfolio companies in establishing strong foundations of corporate social responsibility. In 2020, many of the community-based corporate citizenship initiatives were directed towards aiding in the battle against the pandemic.



### dentalcorp

In April, dentalcorp, Canada's largest network of dental practices, responded to the nation's urgent need for personal protective equipment to support frontline healthcare workers and donated a substantial supply of gloves and surgical masks to two Toronto hospitals to help combat the COVID-19 pandemic. With over 400 dental practices across Canada, dentalcorp was uniquely positioned to leverage its significant resources and relationships with suppliers to help support healthcare workers during such a turbulent time.



### St. George's University

St. George's University (SGU) is one of the world's leading universities committed to outstanding medical, veterinary and healthcare education. Located on the island of Grenada in the West Indies, SGU worked closely with the Government of Grenada to collaborate on the development of COVID-19 testing capabilities, and the donation and sourcing of critical medical equipment. One of the first diagnostic testing facilities in the Caribbean was established on SGU's campus to provide sophisticated polymerase chain reaction (PCR) testing for COVID-19. SGU's diagnostic team also helped design and set up the Ministry of Health's COVID-19 testing site at Grenada General Hospital, including training of lab staff and troubleshooting with initial lab testing, and provided quarantine facilities in the country.

## NEW: RESPONSIBLE INVESTING PARTNER EVALUATION FRAMEWORK

While we have a strong internal investment function, we also partner with external managers and funds for certain investments where we benefit from leveraging their capabilities in deal origination and investment management. When doing so, we assess their responsible investing competencies and alignment with our Statement of Responsible Investing Principles as part of the due diligence process and remain engaged on responsible investing performance through the term of the investment.

In 2020, we worked to formalize and standardize our investment team's responsible investing approach for external managers. Over the course of the year, a cross-Investment Division working group developed a framework for systematically integrating responsible investing considerations through the investment lifecycle for our investments with external managers or funds. The Responsible Investing Partner Evaluation (RIPE) framework is designed with sufficient flexibility to be applied across all asset classes while ensuring material responsible investing characteristics of potential partners are consistently and objectively assessed.

Prospective investments are assessed and scored across four core areas:

- Responsible investing policies and governance
- Responsible investing integration
- Active ownership and stewardship
- Responsible investing reporting

We also consider any further responsible investing considerations pertaining to the fund's specific area of investment or strategy.

The scores and supporting analysis are documented to provide investment committees with a view on the potential partner's responsible investing competencies. We monitor our partners' responsible investing activities over the investment term and review and reassess evaluations on a regular basis to ensure we maintain an up-to-date view on their performance and alignment with OPTrust's responsible investing principles.

Over time, the RIPE framework will help us identify areas of relative strength and weakness within and across our portfolios and prioritize partners for further engagement.

*"Working with my colleagues to develop the RIPE framework, we built a comprehensive methodology that can be calibrated across our entire manager universe and diverse asset classes. The framework strengthens our partnerships with our external managers and allows us to effectively evaluate their responsible investing performance at the inception of an investment and over time."*



**Zarqaa Shaikh**

Associate Portfolio Manager, Multi-Strategy Investing, Capital Markets Group



# COLLABORATIVE PARTNERSHIPS

## ADVANCING RESPONSIBLE INVESTING ACROSS THE INDUSTRY

OPTrust regularly works alongside peers, industry associations and other external organizations to advocate for improved sustainability and transparency in financial markets. Working collaboratively with like-minded organizations strengthens the investor voice and helps us collectively effect positive change on important sustainability matters. Some highlights from 2020 include:

### Investor Leadership Network

As a founding member of the Investor Leadership Network (ILN), a group of global investors collaborating on key sustainability issues, OPTrust continued to support the group's work on advancing climate change disclosure and gender diversity in capital markets. In 2020, the ILN released *Climate Change Mitigation and Your Portfolio: Practical Tools for Investors*, which provides detailed guidance for investors on evaluating the maturity of their investee companies' decarbonization scenario analysis.

### Ontario's Capital Markets Modernization Taskforce

OPTrust worked with a group of like-minded investors, coordinated by the Shareholder Association for Research and Education (SHARE), to engage with a task force charged by the Government of Ontario to conduct the first substantive review of Ontario's securities regulations in over 15 years. Given the significant advancements in responsible investing during that timeframe, strengthening governance on ESG matters was a key focus of the review. The task force's final report, released in January 2021, includes recommendations for the Ontario Securities Commission to mandate disclosure of material ESG information and establishment of diversity targets at the board and executive management levels.

### CDP Science-Based Targets Campaign

OPTrust joined the newly created Science-Based Targets Campaign by CDP (formerly the Carbon Disclosure Project), an initiative to accelerate the adoption of science-based climate targets in the corporate sector by collectively engaging companies on this issue. These targets provide a scientifically-grounded framework for companies to achieve net-zero emissions by 2050 through measurable emissions reductions in the short- and medium-term, and are an effective lever in aligning corporate activities with the low-carbon transition.





## BUILDING A MORE EQUITABLE WORLD

Anti-Black racism is not a new phenomenon, but the killing of George Floyd in May 2020 and subsequent Black Lives Matter activism propelled conversations about systemic racism into the mainstream. Beyond the horrific human cost to historically disenfranchised populations, we are all worse off when communities face discriminatory barriers and are unable to achieve their full potential. We are committed to supporting inclusion and equitable treatment of underrepresented groups within our organization, at our investee companies and in the broader business community.

In 2020, OPTrust:

- Became a **founding signatory to the Responsible Investment Association's Canadian Investor Statement on Diversity and Inclusion**, which challenges us to advance diversity and inclusion of underrepresented populations within our organization, our portfolios and the broader business landscape.
- Signed onto the **BlackNorth Initiative's pledge** to work, through efforts in our own workplace, towards the elimination of anti-Black systemic racism in Canada.
- Updated our **Proxy Voting Guidelines** to emphasize our long-standing commitment to diversity and inclusion in our proxy voting activities at publicly traded companies.

# RESPONSIBLE INVESTING JOURNEY

## RESPONSIBLE INVESTING EVOLUTION: FROM RISK TO OPPORTUNITY

James Davis, Chief Investment Officer, shares his views on how the organization is charting a sustainable course for the long term amid an environment of acute uncertainty.



**Q:** OPTrust has been on a responsible investing journey for over 20 years. In your opinion, where is the organization on the journey?

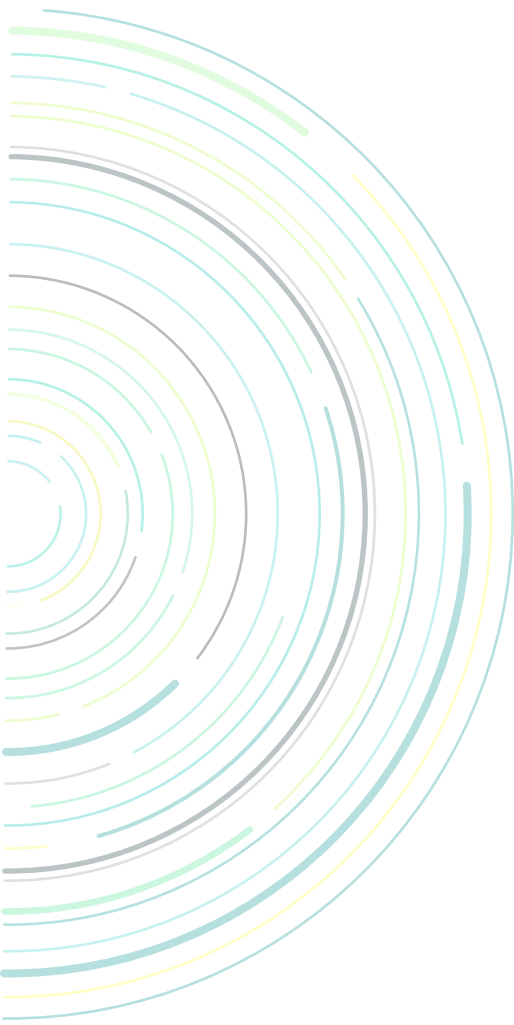
**A:** Responsible investing is the product of a natural evolution of our approach to investing. Across the industry, consideration of environmental, social and governance factors in investment decision-making began with the recognition that these risks can impact performance and plan sustainability. However, ESG risks are moving more quickly than people had originally anticipated. Throughout history, humanity has overcome challenges through finding innovative solutions. Further, capital will always flow to where big problems are being solved. As such, the natural progression as an investor is to recognize that ESG challenges, like climate change, are not only risks. They also bring with them the opportunities that come along with finding solutions. At OPTrust, our journey began with a risk-management lens, but we're now looking beyond just managing ESG risks to also find new opportunities at the intersection of sustainability and innovation.

**Q:** Responsible investing is complex. How are you creating an outcomes-focused culture at OPTrust where responsible investing is everyone's responsibility?

**A:** At OPTrust, there's no one-size-fits-all approach and no one individual or one team owns this challenge. ESG issues affect all asset classes and the Plan's funded status. We all have a role to play and must ensure that everyone is accountable for delivering on the objectives that we are trying to accomplish.

As an organization, we develop clear, but flexible, processes that support the investment teams and enable us to hold ourselves to account by collecting information that we can use to assess our performance and improve our game. This is no easy task. ESG factors are often pre-financial and can't always be systematically quantified. As investors, we're always making decisions under uncertain conditions. This is just another dimension of uncertainty. While the data never will be perfect, that isn't an excuse for inaction.

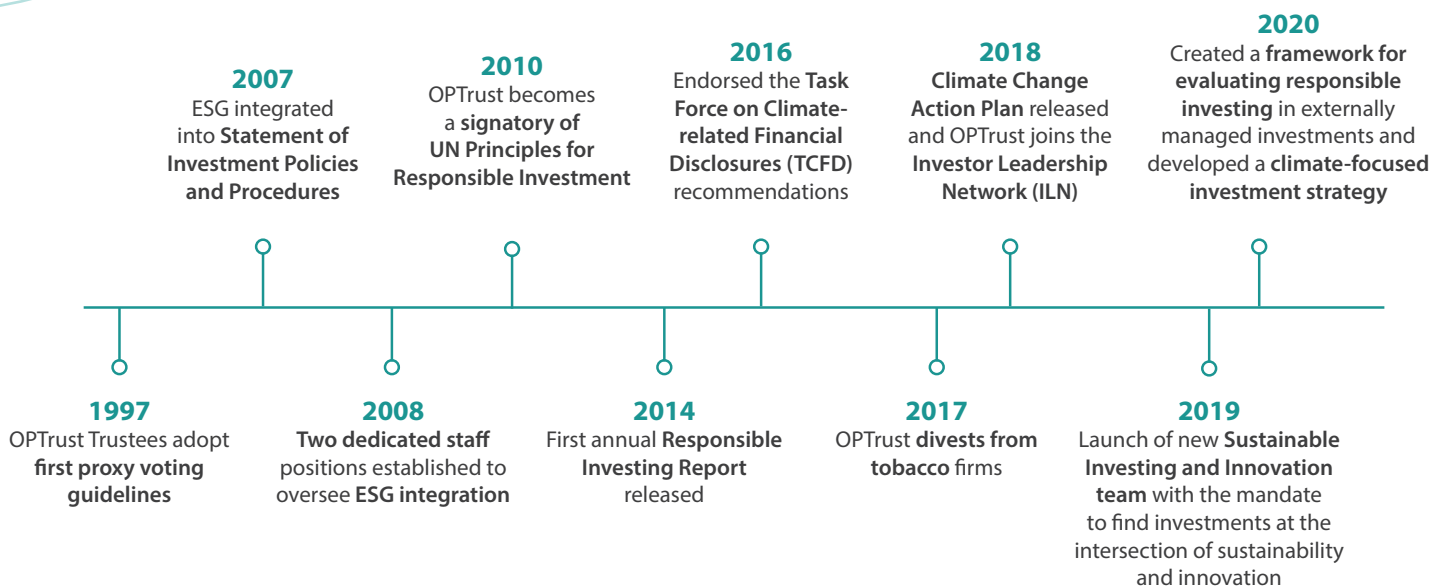
The way we've chosen to approach this at OPTrust is by creating a dedicated Sustainable Investing and Innovation team tasked with facilitating our responsible investing program. However, ultimately every investment professional is accountable for managing ESG risks and opportunities in their decision-making.



**Q:** In such an uncertain environment, especially as the world grapples with the COVID-19 pandemic, why is sustainability so important for investment organizations like pension plans to keep at the forefront?

**A:** When the pandemic hit, OPTrust was, and continues to be, focused on immediate concerns like the health and safety of our members, our employees and making sure that our business can operate in a COVID-19 environment. But that doesn't mean we've lost sight of important, longer-term issues like climate change.

The pandemic has laid bare our vulnerability to natural factors, which in many ways is a wake-up call for investors that natural and human capital must be carefully managed and protected for long-term growth. As allocators of capital, we have a key part to play in the recovery and transition to a more sustainable future.



# CLIMATE-FOCUSED INVESTMENT STRATEGY

## LAYING THE GROUNDWORK FOR A NEW CLIMATE-FOCUSED INVESTMENT STRATEGY

In 2020, the newly-formed Sustainable Investing and Innovation (SII) team developed a climate-focused investment strategy – laying the groundwork for its first investment, which took place in Q1 2021.

**Alison Loat**, Managing Director, and **James Kisil**, Portfolio Manager, shared the thinking behind the strategy:

### Zeroing in on climate

The SII team was given a broad investment mandate to invest at the intersection of sustainability and innovation, including an ability to invest across asset classes. With such a broad mandate, we spent the first part of 2020 researching the landscape and talking to managers to determine where to focus our attention. We settled on climate change because, in our view, there is a large investment opportunity ahead of us as policy, consumers and investors align around addressing it. Climate change is a significant and well-known risk, relative to the others, and as investors, it's something that touches all aspects of our portfolio.

The climate-focused investment strategy is thematic in its approach. We're making the case that you can have a market-returning investment strategy that also adheres to principles and concepts that are important to our members, like being thoughtful about the world around us and that people are going to retire into. It's important to note that every investment we make must stack up on a risk-return basis. We wouldn't make an investment in an opportunity that is concessionary in any way because of our fiduciary responsibility to our members.

### Complementing existing ESG investment activities

The investment team at OPTrust pursues investments that are consistent with a climate-focused sustainability mandate; however, our team is trying to find opportunities that are complementary to what is being done elsewhere. Investments for the SII team's climate-focused strategy are made as part of OPTrust's Incubation Portfolio. As such, we're managing a smaller portfolio than other teams would typically be doing, providing us more flexibility. At this stage, we are focused on funds and not making direct or co-investments.

### Moving forward

During 2020, OPTrust solidified its focus for the new climate-focused investment strategy. We are now looking to make meaningful investments that meet our goals, for the ultimate benefit of plan members and the environment. That said, we do anticipate that our focus will evolve over time to include opportunities in other areas of the sustainability space.

# CLIMATE CHANGE STRATEGY

## RENEWING OUR APPROACH

While the fight against COVID-19 dominated headlines in 2020, it was also a pivotal year for climate change. Record breaking weather events – such as the wildfires in California and Australia, tropical storms in the Atlantic and monsoon floods in China – have proven that, if not addressed, climate change will make many places uninhabitable for human life, destroying industries and livelihoods.



In 2018, we formalized our commitment to address climate change in our portfolio by launching the Climate Change Action Plan, a strategy for managing climate issues. 2018 was also a significant year because we included our response to the Task Force on Climate-related Financial Disclosures (TCFD) in our responsible investing report for the first time.

We've made significant progress since 2018 and in 2020, we reviewed how far we've come on our climate journey and launched the renewal of our climate change strategy in response to changes in our external environment and the realization that we still have more work to do to advance our climate preparedness.

We have established an Executive Team-level commitment to drive the renewal agenda, including identifying the operational implications of the new strategy across the organization. Further, we've planned sessions to engage with our Board on this increasingly urgent issue in advance of finalizing our new strategy and enhancing our TCFD reporting in the year ahead.

# WHAT'S NEXT?

The events of the past year have only reinforced our commitment to responsible investing, and through this challenging environment, we achieved significant progress across the expanded mandate of:



- Continuing to grow OPTrust's long-standing responsible investing program;
- Spearheading OPTrust's climate change adaption and resiliency strategy; and
- Investing in opportunities at the intersection of sustainability and innovation for the benefit of the total fund.

## In 2021, we will build on the successes of 2020 in the following ways:

- Enhancing OPTrust's responsible investing performance by:
  - Establishing a more systematic approach to measuring and tracking our responsible investment performance across the total fund; and
  - Continuing to deliver our core responsible investing program, which includes integration, engagement and disclosure activities.
- Renewing our 2018 Climate Change Action Plan to reflect recent advancements in the regulatory and investor landscape and developing an integrated total fund climate strategy with tangible performance indicators to track progress over time.
- Continuing to build out the SII team's investment portfolio, with an initial focus on climate-oriented investments.

It is a privilege to serve as responsible stewards of capital for our members, many of whom have performed critical functions through the pandemic. In the years ahead, we will continue to enhance OPTrust's responsible investing program to deliver on pension security for our members in a manner that is sustainable and consistent with their expectations of us.

## CONNECT WITH US

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